

Monroe County Hospital

Accountants' Report and Financial Statements

June 30, 2006 and 2005



Monroe County Hospital

June 30, 2006 and 2005

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Monroe County Hospital
Albia, Iowa

We have audited the accompanying balance sheet of Monroe County Hospital as of June 30, 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Monroe County Hospital as of and for the year ended June 30, 2005, were audited by other accountants whose report dated August 19, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of Monroe County Hospital as of June 30, 2006, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and the other accountants have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information in 2006 and 2005, respectively. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Hospital's basic financial statements as of and for the year ended June 30, 2006. The accompanying supplementary information as of and for the year ended June 30, 2006, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The supplementary information as of and for the year ended June 30, 2005, was audited by other accountants whose report dated August 19, 2005, expressed an unqualified opinion on such information in relation to the basic financial statements as of and for the year ended June 30, 2005, taken as a whole.

/s/ **BKD, LLP**

Kansas City, Missouri
September 22, 2006

Monroe County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2006 and 2005

Introduction

This management's discussion and analysis of the financial performance of Monroe County Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2006 and 2005. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents decreased between 2006 and 2005 by \$659,157 or 29% and increased between 2005 and 2004 by \$423,835 or 24%.
- The Hospital's net assets decreased \$441,708 or 8% in 2006 and decreased \$328,092 or 6% in 2005.
- The Hospital reported operating losses in both 2006 (\$773,684) and 2005 (\$644,797). The operating loss increased by \$128,887 or 20%.
- Net nonoperating revenues increased by \$2,713 or 1% in 2006 compared to 2005 and decreased by \$131,410 or 30% in 2005 compared to 2004.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets decreased by \$441,708 or 8% in 2006 over 2005 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2006	2005	2004
Assets			
Patient accounts receivable, net	\$ 1,285,800	\$ 1,722,144	\$ 1,539,117
Other current assets	2,559,366	3,054,208	2,516,146
Capital assets, net	7,314,961	7,922,060	7,534,963
Other noncurrent assets	<u>847,848</u>	<u>850,821</u>	<u>843,629</u>
Total assets	<u>\$ 12,007,975</u>	<u>\$ 13,549,233</u>	<u>\$ 12,433,855</u>
Liabilities			
Current liabilities	\$ 2,082,619	2,787,928	\$ 1,820,369
Long-term debt	<u>5,162,792</u>	<u>5,557,033</u>	<u>5,081,122</u>
Total liabilities	<u>7,245,411</u>	<u>8,344,961</u>	<u>6,901,491</u>
Net Assets			
Invested in capital assets, net of related debt	1,788,404	2,027,763	2,302,058
Restricted			
Expendable	626,282	621,283	634,566
Nonexpendable	179,880	179,880	179,880
Unrestricted	<u>2,167,998</u>	<u>2,375,346</u>	<u>2,415,860</u>
Total net assets	<u>4,762,564</u>	<u>5,204,272</u>	<u>5,532,364</u>
Total liabilities and net assets	<u>\$ 12,007,975</u>	<u>\$ 13,549,233</u>	<u>\$ 12,433,855</u>

In 2006, a significant change in the Hospital's assets was the decrease in patient accounts receivable. Although net patient service revenues increased in 2006 by \$1,035,648, (12%) as compared to 2005, net patient accounts receivable decreased by \$436,344 (25%). The decrease results primarily from changes in billing and collection processes including the creation of a financial counseling program for inpatients and outpatient surgeries and outsourcing all collection activities.

In 2006, a significant change in the Hospital's liabilities was the net decrease in the amount due to third party payers of \$815,867. This decrease is primarily due to an estimated receivable on the 2006 Medicare cost report as the Hospital was underpaid on an interim basis by Medicare. In 2005, the Hospital was overpaid by Medicare on an interim basis.

A significant change in the Hospital's assets in 2005 is patient accounts receivable, which increased \$183,027. A significant change in the Hospital liabilities in 2005 was the increase in amount due to third-party payer settlements (\$642,129) as well as an increase in long-term debt due to capital lease for a new accounting system (\$915,421).

Cash and cash equivalents increased in 2005 primarily due to increased payments from the Medicare program throughout the year resulting in the significant payable to the Medicare program at year end.

Operating Results and Changes in the Hospital's Net Assets

In 2006, the Hospital's net assets decreased by \$441,708 or 8% as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	2006	2005	2004
Operating Revenues			
Net patient service revenue	\$ 9,754,553	\$ 8,718,905	\$ 8,467,033
Other operating revenues	<u>138,470</u>	<u>129,185</u>	<u>104,947</u>
Total operating revenues	<u>9,893,023</u>	<u>8,848,090</u>	<u>8,571,980</u>
Operating Expenses			
Salaries and wages and employee benefits	5,550,725	4,992,736	4,496,472
Medical and professional fees	618,236	667,800	632,963
Depreciation and amortization	884,362	791,630	714,478
Other operating expenses	<u>3,613,384</u>	<u>3,040,721</u>	<u>2,982,890</u>
Total operating expenses	<u>10,666,707</u>	<u>9,492,887</u>	<u>8,826,803</u>
Operating Loss	<u>(773,684)</u>	<u>(644,797)</u>	<u>(254,823)</u>
Nonoperating Revenues (Expenses)			
Property taxes	549,968	532,624	568,795
Interest expense	(339,904)	(293,133)	(162,418)
Interest income	38,256	29,474	29,190
Non-capital grants and gifts	<u>59,345</u>	<u>35,987</u>	<u>795</u>
Total nonoperating revenues	<u>307,665</u>	<u>304,952</u>	<u>436,362</u>
Excess (Deficit) of Revenues and Gains Over Expenses	<u>(466,019)</u>	<u>(339,845)</u>	<u>181,539</u>
Capital Grants and Contributions	<u>24,311</u>	<u>11,753</u>	<u>261,463</u>
Increase (Decrease) in Net Assets	<u>\$ (441,708)</u>	<u>\$ (328,092)</u>	<u>\$ 443,002</u>

Operating Loss

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2006, 2005 and 2004, the Hospital has reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Monroe County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating loss for 2006 increased by \$128,887 or 20% as compared to 2005. The primary components of the change in operations were:

- Net patient service revenue increased \$1,035,648 or 12% over 2005 primarily due to an increase in rates of 8% effective July 1, 2005 and another increase of 10% effective February 1, 2006.
- An increase in salaries, wages and employee benefits for the Hospital's employees of \$557,989 or 11%. The increase is due to the employment of two additional physicians and increased investments in employee education and employee satisfaction programs.
- Other operating expenses increased \$572,663. Included in this amount is \$312,486 related to the physician clinic for clinic expenses due to the addition of two new physicians in 2006.
- The Hospital was required to make payments to Medicare of approximately \$145,000 due to cost report reopenings, which had not been contemplated.

The operating loss for 2005 increased by \$389,974 as compared to 2004. The primary components of the change in operations were:

- An increase in net patient service revenue of \$251,872 or 3%.
- An increase in salaries and wages and employee benefits for the Hospital's employees of \$496,264 or 11% due to normal salary and wage increases and an increase in health insurance premiums.

Employee salaries and wages and benefits increased in 2005 in connection with the Hospital's retention and recruitment efforts. The Hospital invests significantly in employee education and employee recognition programs in order to improve the Hospital's quality outcomes.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital and interest income and interest expense, all of which remained relatively constant in 2006 as compared to 2005.

Nonoperating revenues decreased by \$131,410 in 2005 over 2004. This is due to the Hospital capitalizing interest related to a construction project that was completed during 2004.

Contributions

The Hospital received contributions of \$6,665 from various individuals in 2006, an increase of \$2,076 or 45% from 2005.

The Hospital received contributions of \$4,589 from various individuals in 2005, a decrease of \$257,669 from 2004. This decrease is due to a donation from the Monroe County Health Care Foundation in 2004 for community capital campaign support of the hospital construction project.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating loss and nonoperating revenues and expenses in 2006 and 2005, discussed earlier, except that the net amounts due to third-party payers related to cost report settlements decreased \$815,867 in 2006 and increased \$642,129 in 2005, and net patient accounts receivable decreased \$436,344 in 2006 and increased \$183,027 in 2005.

Capital Asset and Debt Administration

Capital Assets

At the end of 2006, the Hospital had \$7.3 million invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2006, the Hospital acquired capital assets costing \$277,263.

In 2005, the Hospital acquired capital assets costing \$1,178,727, including \$915,421 for an accounting system.

Debt

At June 30, 2006, the Hospital had \$5,622,544 in revenue capital loan notes, bonds and capital lease obligations outstanding. The Hospital issued no new debt in 2006 or 2005, and the Hospital initiated capital leases of \$77,020 in 2006 and \$915,421 in 2005.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling (641) 932-2134.

Monroe County Hospital

Balance Sheets

June 30, 2006 and 2005

Assets

	2006	2005
Current Assets		
Cash and cash equivalents	\$ 1,198,338	\$ 1,858,468
Assets held under bond indenture agreement	300,243	299,094
Patient accounts receivable, net of allowance; 2006 – \$333,275, 2005 – \$320,625	1,285,800	1,722,144
Property taxes receivable	571,125	536,084
Estimated amounts due from third-party payers	159,000	—
Other receivables	65,194	95,644
Supplies	233,635	216,657
Prepaid expenses	<u>31,831</u>	<u>48,261</u>
Total current assets	<u>3,845,166</u>	<u>4,776,352</u>
Noncurrent Cash and Deposits		
Internally designated for capital acquisitions	125,698	110,411
Externally restricted		
Held under bond indenture agreement	746,526	745,377
By donors	<u>179,880</u>	<u>179,880</u>
	1,052,104	1,035,668
Less amount required to meet current obligations	<u>300,243</u>	<u>299,094</u>
	<u>751,861</u>	<u>736,574</u>
Capital Assets, Net of Accumulated Depreciation	<u>7,314,961</u>	<u>7,922,060</u>
Other Assets		
Deferred financing costs (net of amortization; 2006 – \$29,213, 2005 – \$22,953)	95,987	102,247
Investment in organization	<u>—</u>	<u>12,000</u>
Total other assets	<u>95,987</u>	<u>114,247</u>
Total Assets	<u>\$ 12,007,975</u>	<u>\$ 13,549,233</u>

Liabilities and Net Assets

	2006	2005
Current Liabilities		
Current maturities of long-term debt	\$ 459,752	\$ 439,511
Accounts payable	483,790	499,131
Accrued vacation	292,899	254,549
Accrued payroll and related liabilities	154,809	277,692
Accrued interest	120,244	124,094
Estimated amounts due to third-party payers	—	656,867
Deferred revenue for property taxes	<u>571,125</u>	<u>536,084</u>
Total current liabilities	2,082,619	2,787,928
Long-term Debt	<u>5,162,792</u>	<u>5,557,033</u>
Total liabilities	<u>7,245,411</u>	<u>8,344,961</u>
Net Assets		
Invested in capital assets, net of related debt	1,788,404	2,027,763
Restricted – expendable for debt service	626,282	621,283
Restricted – nonexpendable endowment	179,880	179,880
Unrestricted	<u>2,167,998</u>	<u>2,375,346</u>
Total net assets	<u>4,762,564</u>	<u>5,204,272</u>
Total Liabilities and Net Assets	<u>\$ 12,007,975</u>	<u>\$ 13,549,233</u>

Monroe County Hospital

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2006 and 2005

	2006	2005
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 10,016,746	\$ 8,992,512
Provision for uncollectible accounts	<u>(262,193)</u>	<u>(273,607)</u>
Net patient service revenue	9,754,553	8,718,905
Other	<u>138,470</u>	<u>129,185</u>
Total operating revenues	<u>9,893,023</u>	<u>8,848,090</u>
Operating Expenses		
Salaries and wages	4,386,031	3,914,626
Employee benefits	1,164,694	1,078,110
Medical professional fees	618,236	667,800
Supplies and expenses	2,110,061	1,644,742
General services	661,331	626,778
Administrative services	742,832	681,928
Depreciation and amortization	884,362	791,630
Insurance	<u>99,160</u>	<u>87,273</u>
Total operating expenses	<u>10,666,707</u>	<u>9,492,887</u>
Operating Loss	<u>(773,684)</u>	<u>(644,797)</u>
Nonoperating Revenues (Expenses)		
Property taxes	549,968	532,624
Interest expense	(339,904)	(293,133)
Interest income	38,256	29,474
Noncapital grants and gifts	<u>59,345</u>	<u>35,987</u>
Total nonoperating revenues	<u>307,665</u>	<u>304,952</u>
Deficit of Revenues and Gains Over Expenses	(466,019)	(339,845)
Capital Grants and Contributions	<u>24,311</u>	<u>11,753</u>
Decrease in Net Assets	(441,708)	(328,092)
Net Assets, Beginning of Year	<u>5,204,272</u>	<u>5,532,364</u>
Net Assets, End of Year	<u>\$ 4,762,564</u>	<u>\$ 5,204,272</u>

Monroe County Hospital
Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	2006	2005
Operating Activities		
Receipts from and on behalf of patients	\$ 9,375,030	\$ 9,178,007
Payments to and on behalf of employees	(5,628,998)	(4,864,717)
Payments to suppliers and contractors	(4,235,509)	(3,750,878)
Other receipts, net	<u>168,920</u>	<u>79,073</u>
Net cash provided by (used in) operating activities	<u>(320,557)</u>	<u>641,485</u>
Noncapital Financing Activities		
Property taxes	549,968	532,624
Noncapital grants and gifts	<u>59,345</u>	<u>35,987</u>
Net cash provided by noncapital financing activities	<u>609,313</u>	<u>568,611</u>
Capital and Related Financing Activities		
Principal paid on capital debt and leases	(451,020)	(260,289)
Interest paid on capital debt and leases	(343,754)	(296,639)
Gifts and grants for capital purposes	24,311	11,753
Purchase of capital assets	<u>(200,243)</u>	<u>(256,757)</u>
Net cash used in capital and related financing activities	<u>(970,706)</u>	<u>(801,932)</u>
Investing Activities		
Interest on deposits	38,256	29,474
Increase in deposits	<u>(15,463)</u>	<u>(13,803)</u>
Net cash provided by investing activities	<u>22,793</u>	<u>15,671</u>
Increase (Decrease) in Cash and Cash Equivalents	(659,157)	423,835
Cash and Cash Equivalents, Beginning of Year	<u>2,224,472</u>	<u>1,800,637</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,565,315</u>	<u>\$ 2,224,472</u>

(Continued)

Monroe County Hospital

Statements of Cash Flows

Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of Cash and Cash		
Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 1,198,338	\$ 1,858,468
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	125,698	110,411
Externally restricted	<u>241,279</u>	<u>255,593</u>
	\$ <u>1,565,315</u>	\$ <u>2,224,472</u>
Reconciliation of Operating Loss to		
Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (773,684)	\$ (644,797)
Depreciation and amortization	890,622	797,890
Gain on sale of capital assets	—	(6,549)
Changes in operating assets and liabilities		
Patient accounts receivable, net	436,344	(183,027)
Supplies	(16,978)	(19,049)
Estimated amounts due from and to third-party payers	(815,867)	642,129
Accounts payable and accrued expenses	(99,874)	88,435
Other assets and liabilities	<u>58,880</u>	<u>(33,547)</u>
Net cash provided by (used in) operating activities	\$ <u>(320,557)</u>	\$ <u>641,485</u>
Supplemental Cash Flows Information		
Capital assets acquired under capital leases	\$ 77,020	\$ 915,421

Monroe County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Monroe County Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa. The Board of Trustees is elected by voters of Monroe County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Monroe County area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2006 and 2005, cash equivalents consisted primarily of savings accounts.

Monroe County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Property Taxes

The Hospital received approximately 5% of its financial support from property tax revenues in the years ended June 30, 2006 and 2005, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the county as of the second preceding January 1. Tax bills are sent by the county in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, vision, short-term disability and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

Monroe County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	2 to 40 years
Buildings, improvements and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight line method.

Compensated Absences

Hospital policies permit most employees to accumulate paid time off benefits. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Assets

Net assets of the Hospital are classified in four components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net assets are noncapital assets that must be set aside specified by a donor external to the Hospital. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable net assets.

Monroe County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Contributions

From time to time the Hospital receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted are reported as nonoperating revenues. Amounts that are restricted to a specific operating purpose are reported as other operating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$55,706 and \$19,873 for 2006 and 2005, respectively.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation. The reclassifications had no effect on the change in financial position.

Monroe County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- ◆ **Medicare.** Inpatient and outpatient services and defined capital cost related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary. Estimated settlements have been reflected in the accompanying financial statements.
- ◆ **Medicaid.** Inpatient and outpatient services rendered to Medicaid Program beneficiaries were reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

Approximately 63% and 69% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2006 and 2005, respectively.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The Hospital was required to make additional payments of approximately \$145,000 in 2006 for prior Medicare cost report reopenings, which had not been included in the estimated amounts due to third parties at June 30, 2005.

Note 3: Deposits, Investments and Interest Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial risk requires compliance with the provisions of state law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2006 and 2005. The Hospital's deposits in banks at June 30, 2006 and 2005 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Monroe County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. The Hospital had no investments at June 30, 2006 and limited investment in a Physician Hospital Organization at June 30, 2005.

Summary of Carrying Values

The carrying values of deposits are included in the balance sheets as follows:

	<u>2006</u>	<u>2005</u>
Carrying value		
Deposits	\$ <u>2,250,442</u>	\$ <u>2,894,136</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,198,338	\$ 1,858,468
Assets held under bond indenture agreement	300,243	299,094
Noncurrent cash and deposits	<u>751,861</u>	<u>736,574</u>
	\$ <u>2,250,442</u>	\$ <u>2,894,136</u>

Interest Income

Interest income for the years ended June 30, 2006 and 2005, amounted to \$38,256 and \$29,474, respectively.

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2006 and 2005 consisted of:

	<u>2006</u>	<u>2005</u>
Medicare	\$ 533,353	\$ 937,745
Medicaid	67,511	168,590
Other third-party payers	558,811	408,809
Patients	<u>459,400</u>	<u>527,625</u>
	1,619,075	2,042,769
Less allowance for uncollectible accounts	<u>333,275</u>	<u>320,625</u>
	\$ <u>1,285,800</u>	\$ <u>1,722,144</u>

Monroe County Hospital
Notes to Financial Statements
June 30, 2006 and 2005

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2006 and 2005 follows:

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2006					
Land	\$ 62,600	\$ —	\$ —	\$ —	\$ 62,600
Land improvements	700,307	—	—	—	700,307
Buildings and leasehold improvements	6,767,223	10,752	—	1,765	6,779,740
Fixed equipment	4,650,617	—	—	—	4,650,617
Major movable equipment	5,208,838	258,228	—	18	5,467,084
Construction in progress	<u>—</u>	<u>8,283</u>	<u>—</u>	<u>(1,783)</u>	<u>6,500</u>
	<u>17,389,585</u>	<u>277,263</u>	<u>—</u>	<u>—</u>	<u>17,666,848</u>
Less accumulated depreciation					
Land improvements	506,909	26,253	—	—	533,162
Buildings and leasehold improvements	2,709,802	226,722	—	—	2,936,524
Fixed equipment	2,888,280	157,472	—	—	3,045,752
Major movable equipment	<u>3,362,534</u>	<u>473,915</u>	<u>—</u>	<u>—</u>	<u>3,836,449</u>
	<u>9,467,525</u>	<u>884,362</u>	<u>—</u>	<u>—</u>	<u>10,351,887</u>
Capital assets, net	\$ <u>7,922,060</u>	\$ <u>(607,099)</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>7,314,961</u>
	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2005					
Land	\$ 62,600	\$ —	\$ —	\$ —	\$ 62,600
Land improvements	700,307	—	—	—	700,307
Buildings and leasehold improvements	6,724,091	43,132	—	—	6,767,223
Fixed equipment	4,629,160	21,457	—	—	4,650,617
Major movable equipment	<u>4,171,753</u>	<u>1,114,138</u>	<u>(77,053)</u>	<u>—</u>	<u>5,208,838</u>
	<u>16,287,911</u>	<u>1,178,727</u>	<u>(77,053)</u>	<u>—</u>	<u>17,389,585</u>
Less accumulated depreciation					
Land improvements	479,836	27,073	—	—	506,909
Buildings and leasehold im- provements	2,484,601	225,201	—	—	2,709,802
Fixed equipment	2,730,164	158,116	—	—	2,888,280
Major movable equipment	<u>3,058,347</u>	<u>381,240</u>	<u>(77,053)</u>	<u>—</u>	<u>3,362,534</u>
	<u>8,752,948</u>	<u>791,630</u>	<u>(77,053)</u>	<u>—</u>	<u>9,467,525</u>
Capital assets, net	\$ <u>7,534,963</u>	\$ <u>387,097</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>7,922,060</u>

Monroe County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 6: Medical Malpractice Insurance

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

Note 7: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2006 and 2005:

	2006				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Hospital revenue bonds, Series 2001 (A)	\$ 4,520,000	\$ —	\$ (175,000)	\$ 4,345,000	\$ 180,000
Hospital revenue note (B)	271,658	—	(9,677)	261,981	10,161
Capital lease obligations (C)	<u>1,204,886</u>	<u>77,020</u>	<u>(266,343)</u>	<u>1,015,563</u>	<u>269,591</u>
Total long-term debt	<u>\$ 5,996,544</u>	<u>\$ 77,020</u>	<u>\$ (451,020)</u>	<u>\$ 5,622,544</u>	<u>\$ 459,752</u>

	2005				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Hospital revenue bonds Series 2001 (A)	\$ 4,685,000	\$ —	\$ (165,000)	\$ 4,520,000	\$ 175,000
Hospital revenue note (B)	280,874	—	(9,216)	271,658	9,677
Capital lease obligations (C)	<u>375,538</u>	<u>915,421</u>	<u>(86,073)</u>	<u>1,204,886</u>	<u>254,834</u>
Total long-term debt	<u>\$ 5,341,412</u>	<u>\$ 915,421</u>	<u>\$ (260,289)</u>	<u>\$ 5,996,544</u>	<u>\$ 439,511</u>

Monroe County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

- (A) Hospital Revenue Bonds, Series 2001, originally aggregating \$5,000,000, were issued by the Hospital to finance building improvements and refund 1980 bonds. The bonds are payable in annual principal and semiannual interest installments, including interest of 4.55% to 6.10%, on July 1 and January 1 of each year until July 2021.

The Bonds are collateralized by net revenues of the Hospital. The Bonds due on or after July 1, 2010 are subject to redemption on or after July 1, 2009 in whole or in part on any date in such order of maturity as the Hospital may determine at par plus accrued interest at the date of redemption.

- (B) Hospital Revenue Note dated August 1993 with an original principal amount of \$352,500. The note is payable in yearly installments of \$23,283, including interest at 5%, payable on July 1 of each year until July 2023. The Hospital has reserved the right to repay the principal of this note due July 1, 2005 to 2023. The notes are collateralized by the net patient revenues of the Hospital.

- (C) At varying rates of imputed interest from 5.0% to 7.2% maturing through 2011 and collateralized by leased equipment. Equipment under capital leases is as follows:

	<u>2006</u>	<u>2005</u>
Equipment	\$ 1,457,278	\$ 1,380,258
Less accumulated depreciation	<u>723,955</u>	<u>333,858</u>
	<u>\$ 733,323</u>	<u>\$ 1,046,400</u>

The Series 2001 Revenue Bonds provide that a Debt Service Reserve Fund be maintained in the amount of the final reserve requirement of \$423,000. The Hospital Revenue Loan Note, Series 1993 requires that an amount of \$23,283 be maintained in a reserve fund. The amounts were fully funded at June 30, 2006 and 2005.

The indenture agreements also require certain funds be established for semiannual interest and annual principal payments to be funded monthly. These funds and the Debt Service reserve funds are included in noncurrent cash and deposits except for amounts required to meet current obligations in the coming year. The indenture agreements also require the Hospital to comply with certain restrictive covenants, including minimum insurance coverage and restrictions on occurrence of additional debt.

Monroe County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

The debt service requirements for the Hospital revenue bonds Series 2001 as of June 30, 2006, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2007	\$ 416,393	\$ 180,000	\$ 236,393
2008	417,833	190,000	227,833
2009	418,518	200,000	218,518
2010	413,543	205,000	208,543
2011	417,808	220,000	197,808
2012 – 2016	2,073,108	1,275,000	798,108
2017 – 2021	2,062,486	1,680,000	382,486
2022	<u>407,048</u>	<u>395,000</u>	<u>12,048</u>
	<u>\$ 6,626,737</u>	<u>\$ 4,345,000</u>	<u>\$ 2,281,737</u>

The debt service requirements as of June 30, 2006 are as follows for the Hospital revenue note, Series 1993:

Year Ending June 30,	Total to be Paid	Principal	Interest
2007	\$ 23,283	\$ 10,161	\$ 13,122
2008	23,283	10,669	12,614
2009	23,283	11,202	12,081
2010	23,283	11,763	11,520
2011	23,283	12,350	10,933
2012 – 2016	116,415	71,658	44,757
2017 – 2021	116,415	91,455	24,960
2022 – 2024	<u>45,985</u>	<u>42,723</u>	<u>3,262</u>
	<u>\$ 395,230</u>	<u>\$ 261,981</u>	<u>\$ 133,249</u>

Monroe County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

The following is a schedule by year of future minimum lease payments under the capital lease including interest, together with the present value of the future minimum lease payments as of June 30, 2006:

Year Ending June 30,	Amount
2007	\$ 326,803
2008	335,707
2009	234,561
2010	234,560
2011	<u>15,937</u>
Total minimum lease payments	1,147,568
Less amount representing interest	<u>132,005</u>
Present value of future minimum lease payments	\$ <u>1,015,563</u>

Note 8: Designated Net Assets

At June 30, 2006 and 2005, restricted expendable net assets of \$746,526 and \$745,377 were available for debt service reserve and sinking funds related to indenture agreements.

Note 9: Restricted Net Assets

The Hospital was named as a recipient of future investment income from a perpetual endowment fund created under the last will and testament of Denzil F. and Alice E. Patton. The will stipulated that the corpus is to be held for fifty years under the administration of a trustee and the net investment income is to be distributed each year to the Hospital. After time restriction is met, the principal balance may be used for the operations of the Hospital. The time restriction expires January 2051. Assets of this trust are included in the accompanying financial statements as externally restricted by donors. Trust income received is reported as other income.

Note 10: Pension Plan

Plan Description

The Hospital contributes to the Iowa Public Employees' Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. The plan provides retirement and death benefits, which are established by state statute, to plan members and beneficiaries. The plan issues a publicly available financial report that includes fi-

Monroe County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

nancial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Funding Policy

Plan members are required to contribute 3.7% of their annual covered salaries and the Hospital is required to contribute 5.75% of annual covered payroll for 2006 and 2005. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2006, 2005 and 2004 were \$240,018, \$216,536 and \$201,146, respectively, which equaled the required contributions for each year.

Note 11: Network Administration and Support Services Agreement

The Hospital has entered into an agreement with another health care organization for network administration and support services. Administration and support services fees of \$357,147 and \$290,461 were incurred for the years ended June 30, 2006 and 2005, respectively.

Note 12: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on a cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget, for the year ended June 30, 2006:

	Actual	Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 549,968	\$ —	\$ 549,968	\$ 549,217
Other revenues/receipts	<u>10,014,935</u>	<u>(379,523)</u>	<u>9,635,412</u>	<u>11,315,997</u>
Total revenues/receipts	10,564,903	(379,523)	10,185,380	11,865,214
Expenses/disbursements	<u>11,006,611</u>	<u>86,012</u>	<u>11,092,623</u>	<u>13,961,705</u>
Decrease in net assets	(441,708)	(465,535)	(907,243)	(2,096,491)
Balance, beginning of year	<u>5,204,272</u>	<u>(384,620)</u>	<u>4,819,652</u>	<u>4,819,652</u>
Balance, end of year	\$ <u>4,762,564</u>	\$ <u>(850,155)</u>	\$ <u>3,912,409</u>	\$ <u>2,723,161</u>

Supplementary Information

Monroe County Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2006 and 2005

	2006			2005		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Daily Patient Services						
Acute nursing care	\$ 767,741	\$ 767,741		\$ 763,562	\$ 763,562	
Extended care	284,440	284,440		265,757	265,757	
Skilled care	<u>292,783</u>	<u>292,783</u>		<u>304,700</u>	<u>304,700</u>	
	<u>1,344,964</u>	<u>1,344,964</u>		<u>1,334,019</u>	<u>1,334,019</u>	
Nursing Services						
Operating room	654,643	169,839	\$ 484,804	506,078	104,229	\$ 401,849
Recovery room	24,188	14,042	10,146	86,320	14,017	72,303
Emergency room	<u>1,038,980</u>	<u>41,175</u>	<u>997,805</u>	<u>742,325</u>	<u>63,167</u>	<u>679,158</u>
	<u>1,717,811</u>	<u>225,056</u>	<u>1,492,755</u>	<u>1,334,723</u>	<u>181,413</u>	<u>1,153,310</u>
Other Professional Services						
Central services and supplies	86,134	36,630	49,504	353,683	88,065	265,618
Hospice	277,609	4,431	273,178	355,659	20,401	335,258
Home health	3,431		3,431	3,820		3,820
Ambulance	550,723	135,544	415,179	460,430	36,228	424,202
Laboratory	1,763,242	205,512	1,557,730	1,501,273	260,228	1,241,045
Radiology	454,828	39,594	415,234	386,791	52,207	334,584
Electrocardiology	115,323	12,166	103,157	116,070	19,503	96,567
Respiratory therapy	277,383	254,988	22,395	381,932	357,791	24,141
Pharmacy	2,280,041	901,203	1,378,838	1,890,284	899,005	991,279
Anesthesiology	177,292	46,224	131,068	153,346	39,542	113,804
Physical therapy	458,850	89,760	369,090	427,010	70,334	356,676
Speech therapy	30,182	10,731	19,451	7,617	4,486	3,131
CT scan and MRI	1,682,608	195,430	1,487,178	1,397,801	312,869	1,084,932
Cardiac rehab	80,670		80,670	55,686		55,686
Occupational therapy	123,343	70,455	52,888	148,727	80,059	68,668
Outpatient clinic	10,027		10,027	66,331		66,331
Physician clinic	<u>1,113,844</u>		<u>1,113,844</u>	<u>477,321</u>		<u>477,321</u>
	<u>9,485,530</u>	<u>2,002,668</u>	<u>7,482,862</u>	<u>8,183,781</u>	<u>2,240,718</u>	<u>5,943,063</u>
Gross Patient Service Revenue	12,548,305	\$ <u>3,572,688</u>	\$ <u>8,975,617</u>	10,852,523	\$ <u>3,756,150</u>	\$ <u>7,096,373</u>
Contractual Adjustments	<u>(2,531,559)</u>			<u>(1,860,011)</u>		
Net Patient Service Revenue before Provision for Uncollectible Accounts	10,016,746			8,992,512		
Provision for Uncollectible Accounts	<u>(262,193)</u>			<u>(273,607)</u>		
Net Patient Service Revenue	\$ <u>9,754,553</u>			\$ <u>8,718,905</u>		

Monroe County Hospital
Schedules of Other Revenues
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cafeteria	\$ 35,239	\$ 37,471
Medical records	2,341	3,825
Rent	66,899	60,788
Other	<u>33,991</u>	<u>27,101</u>
	\$ <u>138,470</u>	\$ <u>129,185</u>

Monroe County Hospital

Schedules of Operating Expenses

Years Ended June 30, 2006 and 2005

	2006			2005		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Medical and surgical	\$ 952,115	\$ 803,096	\$ 149,019	\$ 979,509	\$ 841,821	\$ 137,688
Extended care	250,108	246,230	3,878	186,941	182,948	3,993
Emergency room	656,961	389,989	266,972	632,339	340,271	292,068
Operating and recovery rooms	328,562	220,047	108,515	339,434	219,726	119,708
Nursing administration	52,539	51,438	1,101	53,158	49,357	3,801
	<u>2,240,285</u>	<u>1,710,800</u>	<u>529,485</u>	<u>2,191,381</u>	<u>1,634,123</u>	<u>557,258</u>
Other Professional Services						
Laboratory	474,362	208,408	265,954	462,389	206,392	255,997
Radiology	431,928	348,648	83,280	367,718	320,898	46,820
Respiratory therapy	85,414	61,854	23,560	88,127	66,889	21,238
Pharmacy	622,700	84,951	537,749	507,928	68,567	439,361
Anesthesiology	97,124		97,124	99,530		99,530
Physical therapy	206,823		206,823	227,213		227,213
Speech pathology	19,825		19,825	5,948		5,948
CT scan	12,786		12,786	17,345		17,345
Ultrasound	10,689		10,689	33,390		33,390
Mammography	8,855		8,855	5,738		5,738
MRI	77,014		77,014	63,623		63,623
Nuclear scanning	10,698		10,698	14,132		14,132
Cardiac rehab	33,760	28,071	5,689	24,402	22,195	2,207
Occupational therapy	71,673		71,673	87,056		87,056
Medical records	129,753	106,548	23,205	117,678	102,310	15,368
Outpatient clinic	67,411	61,962	5,449	104,853	95,700	9,153
Physician clinic	1,031,370	412,089	619,281	416,158	109,363	306,795
Infection control	3,779		3,779	9,054	8,410	644
Hospice	248,997	176,127	72,870	225,993	147,413	78,580
Home health	1,406		1,406	2,444	383	2,061
Ambulance	280,656	239,553	41,103	252,832	229,747	23,085
	<u>3,927,023</u>	<u>1,728,211</u>	<u>2,198,812</u>	<u>3,133,551</u>	<u>1,378,267</u>	<u>1,755,284</u>
General Services						
Operation of plant	574,170	114,894	459,276	568,205	107,508	460,697
Dietary	323,257	174,933	148,324	292,945	173,748	119,197
Environmental services	159,768	119,248	40,520	143,205	111,873	31,332
Housekeeping	65,731	52,520	13,211	63,585	48,033	15,552
	<u>1,122,926</u>	<u>461,595</u>	<u>661,331</u>	<u>1,067,940</u>	<u>441,162</u>	<u>626,778</u>
Administrative Services	<u>1,228,257</u>	<u>485,425</u>	<u>742,832</u>	<u>1,143,002</u>	<u>461,074</u>	<u>681,928</u>
Employee Benefits	<u>1,164,694</u>		<u>1,164,694</u>	<u>1,078,110</u>		<u>1,078,110</u>
Depreciation	<u>884,362</u>		<u>884,362</u>	<u>791,630</u>		<u>791,630</u>
Insurance	<u>99,160</u>		<u>99,160</u>	<u>87,273</u>		<u>87,273</u>
	<u>\$ 10,666,707</u>	<u>\$ 4,386,031</u>	<u>\$ 6,280,676</u>	<u>\$ 9,492,887</u>	<u>\$ 3,914,626</u>	<u>\$ 5,578,261</u>

Monroe County Hospital
Schedules of Patient Receivables and
Allowance for Uncollectible Accounts
Years Ended June 30, 2006 and 2005

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2006	2005	2006	2005
Days Since Discharge or date of service				
0 – 30	\$ 1,050,530	\$ 932,171	57%	43%
31 – 60	214,235	319,691	11	15
61 – 90	124,730	247,612	7	11
91 – 120	72,527	186,047	4	8
121 and over	<u>383,813</u>	<u>503,248</u>	<u>21</u>	<u>23</u>
	<u>1,845,835</u>	<u>2,188,769</u>	<u>100%</u>	<u>100%</u>
Contractual allowances	226,760	146,000		
Allowance for uncollectible accounts	<u>333,275</u>	<u>320,625</u>		
	<u>560,035</u>	<u>466,625</u>		
	<u>\$ 1,285,800</u>	<u>\$ 1,722,144</u>		

Allowance for Uncollectible Accounts

	2006	2005
Balance, beginning of year	\$ 320,625	\$ 295,852
Provision for year	262,193	273,607
Recoveries of accounts previously written off	<u>182,628</u>	<u>114,403</u>
	765,446	683,862
Less accounts written off	<u>432,171</u>	<u>363,237</u>
Balance, end of year	<u>\$ 333,275</u>	<u>\$ 320,625</u>

Monroe County Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2006 and 2005

Supplies

	<u>2006</u>	<u>2005</u>
General	\$ 134,193	\$ 130,802
Pharmacy	<u>99,442</u>	<u>85,855</u>
	\$ <u><u>233,635</u></u>	\$ <u><u>216,657</u></u>

Prepaid Expenses

	<u>2006</u>	<u>2005</u>
Insurance	\$ 13,734	\$ 11,735
Lease	<u>18,097</u>	<u>36,526</u>
	\$ <u><u>31,831</u></u>	\$ <u><u>48,261</u></u>

Monroe County Hospital

Schedule of Officials

June 30, 2006

Name	Title	Term Expires December 31
Board of Trustees		
Dan Stocker	Chair	2006
Kevin Kness	Member	2006
Debbie Judge	Secretary	2010
Lorraine Starcevic	Member	2010
Tim Shehan	Member	2010
Marilee Scieszinski	Member	2008
Lana Kaldenberg	Member	2008
Hospital Officials		
Greg Paris	Administrator	
Heather Cain	Chief Financial Officer	

Monroe County Hospital
Schedules of Financial and Statistical Data
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Patient Days (Exclusive of Swing-bed)		
Medicare	1,032	1,091
Medicaid	24	108
Private and other	<u>191</u>	<u>244</u>
	<u>1,247</u>	<u>1,443</u>
Medicare and Medicaid Percent	<u>84.7%</u>	<u>83.1%</u>
Percent of Occupancy (Acute)	<u>14.0%</u>	<u>16.0%</u>
Discharges (Exclusive of Swing-bed)		
Medicare	301	309
Medicaid	14	18
Private and other	<u>72</u>	<u>78</u>
	<u>387</u>	<u>405</u>
Average Length of Stay in Days	<u>3.2</u>	<u>3.6</u>



**Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Trustees
Monroe County Hospital
Albia, Iowa

We have audited the financial statements of Monroe County Hospital as of and for the year ended June 30, 2006, and have issued our report thereon dated September 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and responses as item 06-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted a certain additional matters that are reported below or we reported to the Hospital management a separate letter dated September 22, 2006.

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2006. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2006.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2006 did not exceed amounts budgeted.

Questionable Expenditures

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials were noted. Mileage reimbursement was approved for employees not in excess of the IRS allowable limits.

Business Transactions

We noted no transactions between Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Board of Trustees.

Trustee Minutes

No transactions were found that we believe should have been approved in the trustee minutes but were not.

Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

Unclaimed Property

Prior to November 1, 2005, the Hospital was required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted the following exception:

Criteria or Specific Requirement – Hospital management is responsible for filing a report of unclaimed property or a negative report if no unclaimed property is on hand.

Condition – A report noting no unclaimed property was not filed in 2006 for the year ended June 30, 2005.

Context – The Hospital had no unclaimed property, but no report was filed.

Effect – Requirements were not met under Chapter 556.11 of the Code of Iowa.

Cause – Necessary reporting was not made in the current fiscal year.

Recommendation – Management should ensure necessary reporting is completed each year.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to ensure all reporting is made in accordance with the Code of Iowa.

Disbursements for Equipment and Supplies

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa.

Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

Board of Trustees
Monroe County Hospital
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This report is intended solely for the information and use of the governing body and management and the State of Iowa, and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
September 22, 2006

Monroe County Hospital
Schedule of Findings and Responses
Year Ended June 30, 2006

Reference Number	Finding
06-1	<p>Criteria or Specific Requirement—Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition—Three individuals have incompatible duties in the cash receipts cycle. One individual has incompatible duties in the purchases and payroll cycles.</p> <p>Context—Individuals responsible for processing cash receipts, cash disbursements and recording and monitoring payroll information have duties that include access to assets, recording responsibilities and some monitoring responsibilities.</p> <p>Effect—Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause—Duties in the cash receipts, purchases and payroll cycles are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation—Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the findings and recommendations. Management will perform suggested evaluation and make any changes that are cost-effective and operationally feasible within the next year.</p>



Board of Trustees
Monroe County Hospital
Albia, Iowa

As part of our audit of the financial statements of Monroe County Hospital (the "Hospital") for the year ended June 30, 2006, we studied and evaluated the Hospital's internal control structure. Because the study and evaluation was only part of the overall audit plan regarding the financial statements, it was not intended to be a complete review of all your accounting procedures and, therefore, would not necessarily disclose all reportable conditions or opportunities for improvement. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We observed the following matters and offer these comments and suggestions.

Segregation of Duties

Certain matters regarding internal controls were included in the Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording of transactions. Segregation of conflicting duties within the Hospital's accounting department may be difficult because of the limited number of personnel. However, there may be compensating controls management could implement to reduce the possibility of errors or irregularities going undetected in the normal course of business. We encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the Hospital's accounting department.

Segregation of duties issues were noted in the following areas:

Cash Disbursements—The Accounts Payable Clerk has the ability to issue checks, record checks that are paid, adjust the expense accounts and reconcile bank balances to the general ledger. She also has access to signed checks and can change master accounts payable vendor files.

Revenues and Cash Receipts—The Business Office Manager, Cash Receipts Clerk and the Billing Clerk have the ability to receive cash, adjust patient accounts for payments received and change the patient billing files.

Payroll – The Payroll Manager has the ability to add employees to master files, issue and have access to payroll checks, perform recording functions in addition to some reconciling functions.

We recommend the Hospital consider implementing the following changes to improve controls:

- Perform an independent review/approval of the payroll register and of the payroll reconciliation to the general ledger. Remove signing authority and access to payroll checks from payroll manager.
- Where review procedures have been implemented to reduce the risk from lack of segregation (i.e., having the CFO review the work performed), demonstrate written evidence of this review process, either directly on the item being reviewed or on a daily review log.
- Consider reassigning some of the duties requiring access to signed checks or cash receipts and recordkeeping.

Required Vacations for Certain Employees

The Hospital has no formal policy requiring vacations to be taken by certain employees whose positions affect some aspect of the accounting and finance functions at the Hospital. We recommend requiring mandatory one week vacations be taken by such personnel yearly such that another employee performs the finance or accounting related tasks the employee is responsible for. Required vacations of finance and accounting personnel provide an added measure that may help reduce or prevent fraudulent behavior.

Documentation of Accounting Policies

The Hospital has no formal documentation of standard accounting procedures. We recommend documenting accounting procedures, such as general ledger maintenance, payroll processing, cash disbursement processing, and so forth, should an unforeseen emergency occur with accounting personnel. This would enable the accounting function to continue with a minimum of interruption to daily activities.

Allowances for Bad Debts and Contractual Adjustments

The Hospital had not adjusted the allowance for doubtful accounts or contractual adjustments from the prior year. We recommend the Hospital develop a methodology based on the aging of the accounts receivable and historical write-off information, to evaluate on a monthly basis the amount that should be recorded as an allowance for doubtful accounts. The Hospital should also evaluate the allowance for contractual adjustments based on current payment information from third-party payers and adjust on a monthly basis.

We recommend the Hospital periodically reevaluate the allowance percentage used for the physician clinic accounts receivable to ensure it is based on the current payment environment.

Fixed-Asset Records

To ensure reliability of the fixed-asset records, we recommend the Hospital periodically take a physical inventory of equipment. An inventory of equipment can be scheduled on a rotating basis so each department is inventoried at reasonable time intervals and appropriate disposition made of account balances representing lost or abandoned equipment.

Documentation of Approval for Transactions

We noted some supporting documents related to employee recognition expenses were not approved by the department manager. We recommend the Hospital follow its processes for documenting approval of invoices.

We also noted that written documentation of approval for adjusting journal entries was not completed according to Hospital policies. We recommend that review and documentation of the review be maintained for all adjusting journal entries.

Physician Payments

The Hospital has recorded certain amounts paid to physicians as to be assets amortized over the period specified based on contractual agreements. The Hospital did not amortize any amounts in 2006. We recommend the hospital amortize the amounts applicable to each year based on the terms of the agreements.

Significant Audit Adjustments

Several adjustments were made in connection with the year-end audit. We recommend such adjustments be posted at the close of the year to prevent recurring audit adjustments, reduce the number of future audit adjustments and also provide management and the Board of Directors with more accurate financial information on an interim basis.

Foundation

The Hospital and related Foundation appear to meet the criteria that would require the Foundation be consolidated in the Hospital's financial statements. The Foundation was deemed to not be material for 2006. The Hospital will need to re-evaluate this in 2007.

Capital Lease Payments

The Hospital recorded all payments made for capital leases against the principal balance instead of recording a portion to interest expense. We recommend the Hospital record capital lease payments as a reduction to capital leases payable and a portion to interest expense based on amortization schedules for the leases during the year.

Risk Assessment Audit Standards

During the past year, the AICPA issued the Risk Assessment Suite of Standards (Statements of Auditing Standards Numbers 104 through 111). These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement in a financial statement audit and provide guidance on the design and performance of the audit procedures whose nature, timing and extent are designed to address the assessed risks. In addition, the Statements establish standards and guidance on planning and supervision, the nature of audit evidence and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements.

Overall, the primary objective of these Statements is to enhance the auditor's application of the audit risk model in conducting audits by specifying a more in-depth understanding of the organization and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the organization is doing to mitigate the risks. These standards are effective for fiscal years beginning on or after December 15, 2006.

These standards will have a significant impact on the Hospital's audit for the year ending June 30, 2008.

Independent Assessment of Corporate Compliance Program

In the Office of Inspector General's (OIG) Supplemental Compliance Program Guidance for Hospitals of January 31, 2005, the OIG recommends that, "Hospitals should regularly review the implementation and execution of their compliance program elements. This review should be conducted at least annually and should include an assessment of each of the basic elements individually, as well as the overall success of the program." Furthermore, the OIG recommends the review be conducted by individuals "independent of line management."

We understand through discussions with management that the Hospital is operating under a corporate compliance program. During 2006, the Hospital conducted compliance committee meetings on a monthly basis.

Although the Hospital is performing several functions related to its corporate compliance program, we noted that the Hospital has not conducted an independent review of its corporate compliance program, prepared an audit work plan or conducted a risk assessment. We recommend the Hospital consider conducting an independent review of its corporate compliance program, preparing an audit work plan and performing a risk assessment of the corporate compliance program as suggested by the OIG.

* * * * *

We appreciate the opportunity to present these comments and suggestions. This letter does not express an opinion on the Hospital's overall internal control structure; it does, however, include items that we believe merit your consideration. We can discuss these matters further at your convenience and provide any implementation assistance for changes or improvements you may require.

This letter is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
September 22, 2006